



# VCU

VIRGINIA COMMONWEALTH UNIVERSITY

## VCU ORP Investment Policy Advisory Committee Meeting

April 27, 2020

1:00 PM

**Committee members in attendance:** Cathleen Burke, Jessica Cheatham, Edward Ishac, Andrew Ottens, and Meredith Weiss

**Other attendees:** Daniel Jason (VCU), Barry Schmitt, Drew Battle, and Fran Slacum (all from CAPTRUST)

I. **Approval of Minutes** – the minutes of the November 4, 2019 meeting were approved.

II. **CAPTRUST Investment Review**

CAPTRUST provided an overview of its quarterly investment review document along with the 1st Quarter topical spotlight and market commentary. Industry updates include:

Fourth Quarter 2019 Topical Spotlight

**SECURE Act-** In December, as a part of the government's spending bill, Congress passed—and the president signed into law legislation that includes the most comprehensive changes to private retirement plans in more than a decade. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 is a combination of several bills that were introduced in the last Congress with bipartisan support and is expected to make it easier for employers to sponsor retirement plans for their employees.

IMPACT TO RETIREMENT PLANS

- Requires annual disclosure of lifetime income (Pending further DOL Guidance)
- Extends the current required minimum distribution requirements to age 72 (effective for anyone turning 70.5 (after 12.31.2019)
- Allows penalty-free withdrawals for birth or adoption (optional)
- Provides a safe harbor for lifetime-income provider selection
- Expands portability of lifetime income options
- Allows plans more time to adopt a safe harbor provision

OUTCOMES

- Plan documents will likely need to be amended to comply with certain new regulations.

First Quarter 2020 Topical Spotlight

CAPTRUST discussed the impact COVID 19 and the significant decline in the market have had on recordkeepers (increase in call volumes, significantly longer wait times, “work from home” business continuity plans, and 100% virtual meetings) and on participants (increase in trading volumes, some movement away from equities, calls more about investments, and a small percentage that lowered or stopped contributing).

**CARES Act -** CAPTRUST discussed the recent COVID -19 pandemic and the current (and possible future) impact it is having on humanity and the capital markets. Key components of the CARES Act for persons experiencing COVID-19 related events include:

- Penalty-free withdrawals up to \$100,000
- Loan limits raised from \$50,000 to \$100,000
- Suspension of Required Minimum Distributions (RMDs) for 2020

Plan amendments can be made up until the last day of the plan year beginning January 1, 2022 (for ERISA plans) and January 1, 2024 (for Non-ERISA plans).

***VCU applied the CARES Act provisions on the TDA/403b plan only.***

TIAA and Fidelity provided the following statistics to CAPTRUST on recent activities on the plan:

#### TIAA Enterprise Level

- 83% of clients adopted all the CARES Act provisions
- 15% of top 200 of TIAA's clients opted out of certain CARES Act provisions
- >5,200 loan repayment suspensions, >5,800 withdrawal requests, >2,400 RMD deferred

#### VCU TIAA activity

- 19% increase in call volumes from previous year at this time
- 25% of calls were inquiries on withdrawals (down 8% from prior year at this time)
- 10% of calls were investment inquiries
- Roughly 2% of assets migrated to lower risk investments
- 16 new loans for about \$85,000 (down 20% from this time last year)

#### Fidelity Enterprise Level

- 16% increase in call volume
- 61% increase in online visits
- 5% of calls took action
- <1% stopped contributing

#### VCU Fidelity activity

- No increase in call volume from this time last year
- 16% increase in online visits
- 4% of participants made an exchange with about \$2 million moving to lower risk investments
- 1 CARES Act distribution made for \$823

The Committee discussed challenges associated with Fidelity's approach to the CARES Act along with some recent administrative issues. Fidelity has recently changed its Relationship Manager for VCU.

TIAA was complimented on their approach with no issues reported.

#### Evaluating the impact in times of crisis

CAPTRUST discussed the impact this pandemic has had on performance in target date funds, core/core-plus bond managers, and money market funds and the potential for negative performance. (see below for commentary on CREF Money Market).

#### Economic/Market Overview

CAPTRUST provided the economic and market overview for both the 4th quarter 2019 and 1st Quarter 2020, including highlights from its economic and market commentary in the quarterly investment review document and the 1st quarter market commentary.

The following were key themes through March 31, 2020:

- US stocks fell from all-time high as the coronavirus took root across the U.S.
- International developed and emerging market stocks lagged U.S. Stocks.
- Bond performance was mixed - U.S. Treasuries benefited from the flight to safety, and the 10-year Treasury's yield hit an all-time low due to aggressive Fed action.
- While public real estate typically performs well when interest rates decline, investors concerned about slow economy and falling demand pushed prices lower.
- Significant oil/energy price declines
- Technology sector and why they underperformed less than other sectors.
- Why Value stocks did significantly worse than growth stocks.
- The speed of the market downturn during this economic full stop
- Signs of recovery in China

Major indices performed as follows for the 4<sup>th</sup> 2019 quarter:

- U.S. Stocks +9.1%
- U.S. Bonds + 0.2%
- International Stocks +8.2%
- Emerging Markets +11.8%
- Real Estate +0.8%

Major indices performed as follows for the 1<sup>st</sup> quarter:

- U.S. Stocks (19.6%)
- U.S. Bonds +3.1%
- International Stocks (22.8%)
- Emerging Markets (23.6%)
- Real Estate (24.4%)

### **Plan Level Review**

Plan assets for the Optional Retirement Plan and Cash Match Plan totaled \$567 million as of March 31, 2020 vs. \$652 million as of December 31, 2019:

- ORP assets with Fidelity totaled \$162.5 million
- CMP assets with Fidelity totaled \$10 million
- ORP assets with TIAA totaled \$378 million (including \$10 million in non-approved investments)
- CMP assets with TIAA totaled \$16.5 million (including \$531,622 in non-approved investments)

### **Performance Review**

CAPTRUST discussed the review of plan investments consistent with the standards and approach defined in the Investment Policy Statement.

#### **Fidelity Lineup:**

There are 15 approved funds (with Freedom Funds counted as one). All funds are meeting policy guidelines except two funds are marked for review – DFA Emerging Markets Core Equity I and Goldman Sachs Small Cap Growth Insights:

#### **TIAA-CREF Lineup:**

Of the 14 approved funds (with LifeCycle Funds counted as one), there is one fund marked for review: DFA Emerging Markets Core Equity I:

#### **DFA Emerging Markets Core Equity I (score of 78 with combined assets of \$4.9 million- offered on both TIAA and Fidelity lineups)**

In 2019, the strategy underperformed the benchmark and was near the bottom quartile of the peer group. Notably, this is the first time that the strategy has landed in the bottom quartile of the peer group in the last decade. The strategy's bias to value and small cap stocks has been a headwind in recent years, as growth stocks and large caps have led the market. Value has lagged in the past, like the tech bubble in the late 1990s. Performance is not expected to improve in the first quarter. CAPTRUST recommends that clients currently holding the strategy continue to do so.

#### **Goldman Sachs Small Cap Growth Insights (score of 78 with assets of \$2.2 million - offered only on Fidelity lineup)**

The Small Cap Growth strategy fared better in 2018 and outperformed its benchmark. The strategy has faced stylistic headwinds in recent years primarily due to its valuation discipline. Higher growth, higher valuation stocks have led the market. The strategy tends to avoid those stocks as they prefer stable growth firms. Negative stock selection in healthcare was a main detractor in 2019. The team believes that its valuation discipline and focus on conservative balance sheets will pay off over time. Performance is not expected to improve in the first quarter. CAPTRUST recommends that clients currently holding the strategy continue to do so.

**CAPTRUST will provide updated scoring for 1<sup>st</sup> Quarter 2020.**

#### **CREF Money Market Account Fee Waiver**

In response to economic impacts of the Coronavirus (Covid-19) pandemic, the Federal Reserve cut the target rates to 0%-0.25% on March 15, 2020. To help avoid negative returns for CREF Money Market Account investors, TIAA received a fee waiver from the NY department of financial services through the end of December 2020. This fee waiver will not be renewed. Once this waiver expires, CREF Money Market Account investors could experience negative returns in the account.

The meeting was adjourned at 1:50 p.m.